

Message Text

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ACTION SS-25

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FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 8017

C O N F I D E N T I A L TEL AVIV 5447

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E.O. 11652: GDS

TAGS: PFOR, EAID, IS

SUBJ: TECHNICAL DISCUSSIONS ON ISRAELI 1976 AID REQUEST

REF: A. STATE 195267

B. TEL AVIV A-143 OF 8/7/75

1. WE AGREE WITH MAIN POINTS REPORTED REFTEL BUT
WISH TO MAKE FOLLOWING COMMENTS OR ADDITIONS WITH
RESPECT TO CERTAIN ASPECTS:

(A) PRIVATE CONSUMPTION. PER CAPITA PRIVATE CONSUMPTION
ROSE 4 PERCENT IN REAL TERMS IN 1974. WHILE CONSUMPTION
IS DECLINING IN 1975, WITH FIRST QUARTER DOWN 5 PERCENT
FROM LAST QUARTER 1974, IT IS STILL TOO EARLY TO ESTIMATE
WITH CONFIDENCE FIGURE FOR ENTIRE YEAR. WE NOTE THAT MINISTRY
OF FINANCE ESTIMATES DROP IN IMPORTS OF CONSUMPTION GOODS
OF ONLY ONE PERCENT IN 1976 (SEE REF B).

(B) UNEMPLOYMENT. UNEMPLOYMENT WAS 3.2 PERCENT FOR FIRST
QUARTER 1975. ALTHOUGH THERE IS NO OFFICIAL DEFINITION OF
QUOTE FULL EMPLOYMENT UNQUOTE, MANY ISRAELI ECONOMISTS BELIEVE
THAT WITH RELATIVELY HIGH IMMOBILITY OF ISRAELI LABOR IT
IS ATTAINED WHEN ABOUT 4 TO 4.5 PERCENT OF LABOR FORCE
IS UNEMPLOYED. FINANCE MINISTER RABINOWITZ TWO WEEKS AGO STATED
PUBLICLY THAT QUOTE OVEREMPLOYMENT HAS NOT YET BEEN LIQUIDATED
UNQUOTE AND DEPLORED FACT THAT THERE WAS NO SURPLUS OF WORKERS
AVAILABLE FOR TRANSFER TO EXPORT SECTOR. WE THEREFORE FIND
ESTIMATE OF 6 PERCENT UNEMPLOYMENT IN 1976 MUCH TOO HIGH,
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ESPECIALLY GIVEN ISRAEL'S RECENT HISTORY OF OVEREMPLOYMENT.

WELL BEFORE REACHING THAT FIGURE GOI WOULD LIKELY EASE CURRENT RESTRAINTS, E.G., IN CONSTRUCTION SECTOR. MOREOVER, WE WOULD EXPECT SOME LAY-OFFS AMONG 65,000 WORKERS FROM OCCUPIED TERRITORIES (ABOUT 6 PERCENT OF ISRAEL'S WORK FORCE) TO AVOID HIGH UNEMPLOYMENT AMONG ISRAELIS, ALTHOUGH THIS IS SENSITIVE ISSUE AND GOVERNMENT WOULD CERTAINLY SEEK OTHER REMEDIES FIRST.

(C) OIL SUPPLY. WE ASSUME THAT ISRAELIS CHOSE MEXICO AS THEORETICAL SOURCE FOR REPLACEMENT OIL, IN EVENT ABU RODEIS IS GIVEN UP, BECAUSE (1) THEY DO NOT WISH TO RELY ON IRAN AS SOLE SOURCE, AND (2) THEY ARE ALREADY BUYING SOME 480,000 TONS OF MEXICAN CRUDE PER YEAR, WHICH REPRESENTS ABOUT 6 PERCENT OF ISRAELI CONSUMPTION. THERE IS, OF COURSE, SOME QUESTION WHETHER MEXICO WOULD BE ABLE AND WILLING TO SUPPLY 4 MILLION TONS OF CRUDE TO ISRAEL. IN ANY EVENT PRICE OF MEXICAN CRUDE, PLUS ITS ADDED TRANSPORTATION COST COMPARED TO PERSIAN GULF OIL, WOULD CERTAINLY PLACE ISRAELI CALCULATIONS ON HIGH SIDE.

(D) PROJECTED TRADE DEFICIT. GOI'S OFFICIAL BALANCE OF PAYMENTS PROJECTIONS FOR 1976 WERE FORWARDED REF B. TOTAL EXPORTS GOODS AND SERVICES, EXCLUDING OCCUPIED TERRITORIES, ARE ESTIMATED AT 18 PERCENT NOMINAL INCREASE AND 10 PERCENT REAL INCREASE. COMMODITY EXPORTS ARE PROJECTED TO INCREASE 24 PERCENT NOMINALLY AND 17 PERCENT IN REAL TERMS. EMBASSY BELIEVES THESE FORECASTS ARE FAIRLY REALISTIC. TOTAL IMPORTS GOODS AND SERVICES, EXCLUDING OCCUPIED TERRITORIES, ARE PROJECTED TO INCREASE 15.4 PERCENT NOMINALLY AND 8.7 PERCENT IN REAL TERMS. COMMODITY IMPORTS ARE FORECAST TO RISE BY 1.8 PERCENT IN REAL TERMS. HOWEVER, THIS \$200 MILLION PROJECTED IMPROVEMENT IN TRADE DEFICIT IS ONLY ONE-THIRD OF ESTIMATED \$600 MILLION INCREASE (27 PERCENT IN REAL TERMS) IN DIRECT DEFENSE IMPORTS IN 1976.

2. WITH REGARD MAGNITUDE OF ISRAELI AID REQUEST, ISRAELI PRESS HAS OF LATE CONSISTENTLY MENTIONED FIGURE OF \$3 BILLION, WHICH CALCULATED BY ADDING COSTS OF SUBSTITUTE OIL, NEW DEFENSE LINES AND OIL STORAGE TO ORIGINAL \$2.5 BILLION
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REQUEST. RECENT U.S. CONGRESSIONAL VISITORS HAVE ALSO MENTIONED \$3 BILLION FIGURE.
TOON

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